

Message Text

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TO SECSTATE WASHDC 9973

C O N F I D E N T I A L SECTION 1 OF 4 LIMA 4087

E.O. 11652: GDS

TAGS: ENRG, PE

SUBJECT: PERU'S PETROLEUM PRODUCTION: IMPACT ON BALANCE OF PAYMENTS

REF: (A) LIMA 1934, (B) LIMA 2466, (C) LIMA 2900

1. SUMMARY: ANALYSIS OF PERUVIAN PETROLEUM PROJECTIONS
SUPPLIED BY PETROPERU INDICATES THAT ALTHOUGH SUPPLY EXCEEDS
DOMESTIC DEMAND (AND WILL FOR SEVERAL YEARS) THE NET BALANCE
OF PAYMENTS EFFECT OF PERU'S PETROLEUM OPERATIONS IS LIMITED
DUE TO PRODUCTION SHARING WITH THE CONTRACTING COMPANIES
BELCON AND OCCIDENTAL (OXY) AND REPAYMENT OF THE JAPANESE LOANS
FOR PIPELINE CONSTRUCTION. INCREASED PETROLEUM PRODUCTION
WILL RESULT IN DIRECT FOREIGN EXCHANGE SAVINGS OF \$153 MILLION
IN 1978 AND FURTHER SAVINGS IN 1979 OF \$46 MILLION AT CURRENT
PRICES. OTHER FACTORS AFFECTING PERU'S FINANCIAL BALANCE
FROM OIL SECTOR ARE RECYCLING OF OXY'S REVENUES INTO PERUVIAN
ECONOMY (OVER \$100 MILLION PER YEAR) AND REPAYMENTS TO JAPAN-
ESE FOR PIPELINE (\$55 MILLION PER YEAR BEGINNING MARCH 1979).
SINCE THE JAPANESE PIPELINE LOANS FORM PART OF PERU'S LONG
TERM DEBT OBLIGATIONS AND ONE OF THE LENDERS IS A GOVERN-
MENTAL AGENCY, REPAYMENT OF THE LOAN COULD BE A FACTOR
IN ANY EVENTUAL PERUVIAN OFFICIAL DEBT RESTRUCTURING EXERCISE.
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WHILE CURRENT DATA INDICATE ONLY MODERATE FOREIGN EXCHANGE
GAINS FOR PERU FROM ITS PETROLEUM IN THE NEXT FEW YEARS,
THERE IS SOME OPTIMISM THAT THE NEW INVESTMENT PLANNED BY
OXY AND THE STILL UNEVALUATED JUNGLE PETROLEUM POTENTIAL
WILL EVENTUALLY BRING LARGER PETROLEUM REVENUES. END SUMMARY.

2. IN CONJUNCTION WITH THE COMPLETION OF THE OCCIDENTAL

(OXY) SPUR PIPELINE IN FEBRUARY, THE VISIT OF OXY PRESIDENT ARMAND HAMMER IN MARCH AND THE SIGNING IN APRIL OF THE PETROPERU/OXY CONTRACTS FOR NEW EXPLORATION/EXPLOITATION IN THE JUNGLE AND SECONDARY RECOVERY ON THE COAST, THE PRESS HAS PLAYED UP THE NEWS THAT PERU IS NOW SELF-SUFFICIENT IN PETROLEUM AND WILL SOON BE A NET EXPORTER. TO THE EXTENT THAT PERU'S TOTAL PRODUCTION EXCEEDS DEMAND, THIS ASSERTION IS CORRECT, BUT CLOSER ANALYSIS SHOWS THAT THE FINANCIAL BENEFIT TO PERU IS DEFINITELY LIMITED.

3. ACCORDING TO DATA PROVIDED BY PETROPERU, THE AVERAGE DAILY PRODUCTION DURING 1978 (AS PRODUCTION MOVES FROM ABOUT 110,000 BPD IN JANUARY TO ROUGHLY 190,000 BPD AT YEAR END) IS ESTIMATED AT ABOUT 147,400 BARRELS, COMPOSED AS FOLLOWS:

PETROPERU	73,200 BPD
JUNGLE	39,300 BPD
COAST	33,400 BPD
SECONDARY RECOVERY	500 BPD
OCCIDENTAL	45,000 BPD
BELCO	29,200 BPD
TOTAL	147,400 BPD

AVERAGE DAILY DOMESTIC CONSUMPTION IS ESTIMATED THROUGH THE YEAR AT ABOUT 120,000 BARRELS, BUT THE ROUGHLY 27,400
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BARRELS PER DAY EXCESS OF PRODUCTION OVER CONSUMPTION IS NOT AVAILABLE TO PERU TO EXPORT. UNDER TERMS OF PETROPERU'S CONTRACTS WITH OXY AND BELCO, EACH COMPANY RETAINS 50 PERCENT OF THE PRODUCTION FROM ITS FIELDS. THUS, OF THE 147,000 BPD PRODUCTION IN PERU, ABOUT 22,500 BPD IS RETAINED BY OXY AND 14,600 IS RETAINED BY BELCO, LEAVING ONLY ABOUT 110,300 BPD TO PETROPERU TO MEET DOMESTIC DEMAND. PETROPERU BUYS FROM OXY AND BELCO PART OF THEIR SHARES OF PRODUCTION IN ORDER TO BRIDGE THE GAP BETWEEN PETROPERU'S TOTAL SUPPLY (110,300) AND PERU'S DEMAND (120,000).

4. ACCORDING TO ITS CONTRACTS WITH OXY AND BELCO, PETROPERU PAYS THE COMPANIES \$12.70 PER BARREL (OFFICIAL PRICE FOR LIGHT ARABIAN CRUDE FOB RAS TANURA SAUDI ARABIA). THUS, THE ESTIMATED COST TO PERU FOR ITS PETROLEUM NEEDS FOR 1978 IS AROUND \$46.4 MILLION. IN 1977 PERU'S DAILY PRODUCTION AVERAGED ABOUT 93,000 BARRELS, OF WHICH ROUGHLY 20,000 BPD WENT TO THE TWO CONTRACTING COMPANIES, LEAVING PETRO PERU WITH 73,000 BPD

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C O N F I D E N T I A L SECTION 2 OF 4 LIMA 4087

OR SHORTFALL OF ABOUT 43,000 BPD FROM AVERAGE DAILY CONSUMPTION OF 116,000 BPD DURING THE YEAR. AT \$12.70 PER BARREL, THE COST OF PERU'S PETROLEUM IMPORT BILL IN 1977 WAS ROUGHLY \$199.3 MILLION. THUS, THE INCREASE IN PERU'S CRUDE PRODUCTION FROM 1977 TO 1978, DUE PRIMARILY TO NEW PRODUCTION FROM OXY'S AND PETROPERU'S JUNGLE FIELD MADE POSSIBLE BY THE COMPLETION OF THE NORTHERN PERU PIPELINE SYSTEM, WILL RESULT IN A FOREIGN EXCHANGE SAVING IN 1978 COMPARED TO 1977 OF APPROXIMATELY \$153 MILLION.

5. PETROPERU'S ESTIMATES OF OXY'S PRODUCTION FOR 1978 APPEAR SOMEWHAT CONSERVATIVE. ACCORDING TO OXY, THE COMPANY'S CURRENT PRODUCTION FLUCTUATES BETWEEN 50,000 AND 60,000 BARRELS PER DAY. (THIS WIDE SWING IS DUE PRIMARILY TO THE COMPANY'S DEPENDENCE UPON THE WATER LEVEL IN THE JUNGLE RIVERS FOR BARGING A PORTION OF THE PETROLEUM FROM THE OXY FIELDS TO THE MAIN PIPELINE. BARGE CAPACITY IS FROM 0 TO ABOUT 15,000 BPD, DEPENDING ON THE RIVERS' LEVEL.) COMPANY OFFICIALS EXPECT OXY'S PRODUCTION TO INCREASE TO ABOUT 95,000 BPD MAXIMUM CAPACITY WHEN THE PERMANENT PUMPS FOR THE SPUR LINE ARE INSTALLED LATER THIS YEEAR, LIFTING PIPELINE CAPACITY TO ITS FULL CAPACITY OF 80,000 BPD. (BARGES WILL STILL BE USED, HOWEVER, TO PROVIDE UP TO AN
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ADDITIONAL 15,000 BPD TRANSPORT CAPACITY.) A MORE REASONABLE SUSTAINABLE LEVEL IS PROBABLY 90,000 BPD (SPUR LINE AND BARGES COMBINED) SINCE THE MAXIMUM BARGE CAPACITY OCCURS

DURING ONLY FOUR MONTHS OF THE YEAR. THERE IS SOME TALK ALSO THAT THE SPUR LINE, WITH ADDITIONAL PUMPS, CAN POSSIBLY CARRY 90,000 BPD, WHICH WOULD ENABLE OXY TO PRODUCE A SUSTAINABLE LEVEL OF 100,000 BPD.

6. WE HAVE ALSO CALCULATED THE BALANCE OF TRADE EFFECT THESE TWO MORE OPTIMISTIC ESTIMATES OF OXY'S PRODUCTION WOULD CAUSE. WITH OXY PRODUCTION AT 90,000 BPD LATER IN THE YEAR, OXY'S AVERAGE DAILY PRODUCTION OVER THE YEAR IS APPROXIMATELY 65,000 BARRELS AND TOTAL PRODUCTION IN PERU IS ABOUT 168,000 BPD. SUBTRACTING THE 50 PERCENT BELCO AND OXY SHARES LEAVES PETRO PERU WITH APPROXIMATELY 120,000 BPD OR ROUGHLY THE AMOUNT NEEDED TO MEET DOMESTIC DEMAND. THUS PRODUCTION AT THIS LEVEL HAS A NEUTRAL TRADE EFFECT. USING THE 100,000 BPD PROJECTION FOR OXY AND MAKING THE NECESSARY DEDUCTIONS FOR OXY AND BELCO, PETROPERU SHOULD HAVE ABOUT 123,700 BPD OR ABOUT 3700 BPD OVER THE AMOUNT NEEDED TO MEET DOMESTIC DEMAND. THE NET TRADE EFFECT IN THIS CASE IN 1978 WOULD BE PLUS\$17.2 MILLION (AT \$12.70 PER BARREL).

7. RUNNING THROUGH THE SAME ANALYSIS FOR 1979, ASSUMING OXY HAS SUSTAINED PRODUCTION OF 90,000 BPD, PETROPERU'S TOTAL PRODUCTION SHOULD BE ROUGHLY 196,000 BPD OF WHICH 136,000 BPD WOULD BE AVAILABLE TO PETROPERU. DOMESTIC CONSUMPTION IS ESTIMATED BY PETROPERU TO BE 124,000 BPD, LEAVING PERU WITH A SURPLUS OF ABOUT 12,000 BPD, EQUIVALENT TO \$55.6 MILLION AT CURRENT PRICES AND \$58.4 MILLION FOR THE YEAR ASSUMING A 5 PERCENT PRICE INCREASE. IN 1980, THE PETROLEUM EXPORT EARNINGS ARE ALSO ABOUT \$55.6 MILLION AT

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CURRENT PRICES AND \$61.3 MILLION ASSUMING ANOTHER 5 PERCENT PRICE INCREASE. IN 1981, WITH INCREASED PRODUCTION FROM OXY IN BLOCK 1-B AND ITS SECONDARY RECOVERY OPERATIONS, PERU'S TOTAL PRODUCTION IS ESTIMATED TO BE ABOUT 200,000 BPD OF WHICH PETRO PERU SHOULD KEEP 136,600. HOWEVER, TOTAL DOMESTIC CONSUMPTION IN 1981 IS ALSO ESTIMATED TO BE 136,600, SO THERE WILL BE ROUGHLY BALANCED TRADE EFFECT.

8. MOREOVER, A CONSIDERABLE PORTION OF THE NEW FOREIGN EXCHANGE EARNINGS (A MORE FITTING DESCRIPTION WOULD BE "FOREIGN EXCHANGE SAVINGS") DUE TO INCREASED PRODUCTION OF JUNGLE PETROLEUM WILL LIKELY GO TO JAPAN FOR REPAYMENT OF THE \$330 MILLION LOAN USED TO FINANCE PART OF THE CONSTRUCTION OF THE NORTHERN PERU PIPELINE AND SOME OF PETROPERU'S JUNGLE EXPLORATION AND OPERATIONS. THE CONTRACTS BETWEEN PETRO PERU AND THE JAPAN PERU OIL COMPANY (JAPCO) AND THE JAPANESE PETROLEUM DEVELOPMENT CORPORATION (JPDC) HAVE TWO DISTINCT AND SOMEWHAT INDEPENDENT ELEMENTS: SALE OF PETRO-

LEUM TO JAPAN AND REPAYMENT OF THE PIPELINE LOAN. LOAN AMORTIZATION, WHICH IS ESTIMATED AT ABOUT \$55 MILLION PER YEAR FOR ABOUT 10 YEARS, IS EXPECTED TO BE ACCOMPLISHED WITH PART OF PROCEEDS FROM PETROLEUM SOLD TO JAPAN. AT CURRENT PRICES THE \$55 MILLION IS EQUIVALENT TO ABOUT 12,000 BPD. THE

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SALES CONTRACT, ON THE OTHER HAND, CALLS FOR PERU TO SELL (AND JAPECO TO BUY) 60,000 BPD (36,000 PBD OF CRUDE AND 24,000 BPD OF REFINED PRODUCTS) FOR A FIVE YEAR PERIOD BEGINNING IN SEPTEMBER OR OCTOBER 1978 AND 80,000 BPD (48,000 CRUDE AND 32,000 REFINED) DURING THE SUCCEEDING FIVE YEARS. HOWEVER, PETROLEUM IS TO BE PROVIDED TO JAPECO ONLY AFTER PERU'S DEOMESTIC NEEDS ARE MET. TO THE EXTENT THAT PERU HAS EXCESS PRODUCTION FOR EXPORT, PETROPERU OFFICIALS EXPECT JAPECO TO LAY CLAIM TO ITS PORTION. JAPANESE EMBASSY SOURCES HAVE ALSO CONFIRMED TO US THAT THE JAPANESE COMPANY EXPECTS TO RECEIVE SOME OF PERU'S PETROLEUM.

9. THE AMOUNT OF PETROLEUM WHICH JAPECO OBTAINS AND THE PRICE TO BE PAID ARE TO BE DISCUSSED IN A JULY MEETING OF OFFICIALS FROM PETROPERU AND JAPECO. PETROPERU'S GENERAL MANAGER ALBERTO BRUCE OUTLINED TO THE EMBASSY PETROLEUM OFFICER HIS COMPANY'S CURRENT THINKING ON HOW THE SPLIT WILL BE MADE. ACCORDING TO BRUCE THE JAPANESE WILL RECEIVE A PERCENTAGE OF THE PETROEUM PRODUCTION FROM PERU'S JUNGLE EQUIVALENT TO THE RATIO OF PERU'S TOTAL EXPORTABLE PETROEUM PRODUCTION DIVIDED BY PERU'S TOTAL PETROEUM PRODUCTION. USING ESTIMATES OF PRODUCTION AND CONSUMPTION EXPECTED AT YEAR END 1978,

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ONE CALCULATES AMOUNTS TO BE ALLOTTED THE JAPANESE AS FOLLOWS:

ESTIMATED TOTAL PRODUCTION: 190,000 BPD
ESTIMATED DOMESTIC DEMAND: 123,000 BPD
TOTAL AVAILABLE FOR EXPORT: 67,000 BPD
AVAILABLE FOR EXPORT: 35 PERCENT
AMOUNT AVAILABLE FROM JUNGLE PRODUCTION 85,700 BPD
(NOTE: THE 85,700 BPD JUNGLE PRODUCTION WOULD CONSIST OF
40,700 BPD FROM PETROPERU'S FIELDS AND ABOUT 45,00 BPD
FOR PETROPERU FROM OXY'S FIELDS.) AMOUNT ALLOTTED TO JAPANESE
IS THUS 35 PERCENT OF 85,700 OR ABOUT 30,000 BPD. OF THE 190,000 BPD
TOTAL PRODUCTION OXY WILL RECEIVE 45,000 BPD AND BELCO ABOUT

15,000 BPD, LEAVING PETRO PERU 130,000 BPD TO COVER THE
DOMESTIC DEMAND OF 123,000 BPD. THIS WOULD LEAVE PETROPERU
ONLY ABOUT 7,000 BPD AVAILABLE FOR EXPORT. SINCE ABOUT 12,000
BPD WILL BE NEEDED FOR AMORTIZATION OF THE JAPANESE LOANS, PETRO-
PERU WILL PROBABLY HAVE A SHORTFALL OF ABOUT 5,000 BPD. TO
COVER THIS DEFICIT AND TO MEET ITS 30,000 BPD OBLIGATION TO
JAEPCO PETROPERU CAN PURCHASE THE ADDITIONAL 23,000 BPD FROM
OXY'S SHARE OF PRODUCTION. (PETROPERU'S CONTRACT WITH OXY GIVES
IT FIRST REFUSAL RIGHT TO PURCHASE FROM OXY). FOR 1979 BRUCE'S
FORMULA WOULD ALLOT 31,200 BPD TO JAPAN. SINCE PERU WOULD ONLY
HAVE ABOUT 12,000 BPD FOR EXPORT (SEE PARA 7), PETROPERU WOULD
HAVE TO PURCHASE ABOUT 19,000 BPD FROM OXY. HOWEVER THE COST TO
PERU OF PURCHASING THE REMAINING 19,000 BPD FROM OXY WOULD BE
CANCELLED BY JAPAN'S PURCHASE OF THE 19,000 BPD FROM PETROPERU.
SINCE AT \$127.0 PER BARREL, THE 12,000 BPD AVAILABLE FOR EXPORT IS
WORTH ABOUT \$55 MILLION, OR ROUGHLY EQUAL TO THE AMOUNT DUE FOR
AMORTIZATION OF THE JAPANESE LOANS, THERE IS NOT NET REVENUE FROM
PETROLEUM EXPORTS. ASSUMING AT 5 PERCENT INCREASE IN CRUDE PRICES,
THE SALE TO JAEPCO WOULD BE WORTH \$58.4 MILLION, LEAVING
NET PETROLEUM EXPORT EARNINGS OF \$3.4 MILLION AFTER PAY-
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MENT OF THE LOAN AMORTIZATION. IN 1980, USING A \$12.70
PER BARREL PRICE, THE RESULT IS ABOUT THE SAME AS 1979 WITH (AT
(12.70) PER BARREL PRICE, THE RESULT IS ABOUT THE SAME WITH
REPAYMENT TO THE JAPANESE MATCHING EXPECTED PETROLEUM
EXPORT EARNINGS. HOWEVER, ASSUMING A 5 PERCENT PER YEAR INCREASE IN
CRUDE PRICES, PERU'S NET PETROLEUM EXPORT EARNINGS IN 1980 WOULD BE
\$6.3 MILLION. IN EACH SUCCEEDING YEAR, UNTIL THE LOAN IS FINALLY
REPAID PETROPERU EXPECTS TO PAY APPROXIMATELY
\$55 MILLION TO THE JAPANESE. SINCE IN THIS PERIOD DEMAND

IS EXPECTED TO EXCEED PETROPERU'S SHARE OF TOTAL PRODUCTION, THERE WOULD NOT BE ANY PETROLEUM EXPORT INCOME TO OFFSET EVEN PARTIALLY THIS OUTFLOW. CONSIDERING BOTH THE EXPORT INCOME FROM THE NEW PRODUCTION AND THE OUTFLOW RESULTING FROM THE REPAYMENT TO JAPAN, THE NET BALANCE OF PAYMENTS EFFECT FROM 1979 THROUGH 1981 CAN BE SUMMARIZED AS FOLLOWS:

YEAR	1979	1980	1981
TOTAL			
PRODUCTION (BPD)	196,000	196,000	200,000
PETROPERU'S			
SHARE (BPD)	136,000	136,000	136,600
CONSUMPTION			
(BPD)	124,000	124,000	136,600
EARNINGS			
(MILLIONS)			
AT \$12.70	\$55	\$55	0
AT 5 PERCENT PER YEAR INCREASE			
	\$58.4	(61.3)	0

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REPAYMENT TO
JAPAN (MILLIONS) \$55 \$55 \$55

NET B/P EFFECT
(MILLIONS)
AT \$12.70 0 0 -\$55
AT 5 PERCENT PER YEAR
INCREASE \$3.4 \$6.3 -\$55

IT SHOULD BE NOTED THAT THESE BALANCE OF PAYMENTS EFFECTS ARE BASED ON COMPLETE OUTFLOW OF EARNINGS FROM THE SALE OF OXY'S AND BELCO'S SHARES OF PRODUCTION. HOWEVER, OXY ESTIMATES THAT ABOUT 40 PERCENT OF THE REVENUE FROM THESE SHARES REMAINS IN PERU AS PAYMENT FOR OPERATING COSTS, NEW INVESTMENT, RE-INVESTMENT AND OTHER EXPENSES. WHEN ONE CONSIDERS THIS FACTOR, THE NET BALANCE OF PAYMENTS EFFECT IS AS FOLLOWS (IN MILLION OF DOLLARS:

	1979	1980	1981
AT\$12.70	\$111	\$111	\$ 63
AT 5 PERCENT PER			
YEAR INCREASE	\$117	\$122	\$ 81

10. AS A FINAL LOOK AT HOW INCREASES IN OIL PRODUCTION
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AFFECT THE GOP BALANCE OF PAYMENTS, WE HAVE ATTEMPTED TO CALCULATE THE REVENUE SPLIT OF THE ADDITIONAL 80,000 BPD PRODUCTION (I.E. INCREASES FROM 110,000 IN JANUARY TO 190,000 AT YEAR END) THAT IS EXPECTED TO OCCUR DURING THIS YEAR. THE TOTAL DAILY ADDITIONAL REVENUES (80,000 BPD TIMES \$12.70 EQUAL \$1,016,000) SHOULD BE APPORTIONED AS FOLLOWS:
OXY: \$508,000 (40,000 X 12.70)
JAPECO: \$152,400 (DEBT REPAYMENT BASED ON 12,000 BPD AT \$12.70)
PETROPERU: \$355,600 (28,000 X 12.70)

11. COMMENT: A. WHILE PERU HAS INDEED MOVED INTO PETROLEUM SELF-SUFFICIENCY IN TERMS OF TOTAL PRODUCTION EXCEEDING TOTAL DOMESTIC DEMAND, REVNUUE BENEFITS TO PERU ARE REDUCED CONSIDERABLY SINCE THE MAJORITY OF THE EXCESS

PROUDCTION AT THE PRESENT TIME GOES TO OCCIDENTAL AND BELCO BY VIRTURE OF THEIR CONTRACTS WITH PETROPERU. IN FACT, AT THE PRESENT TIME BELCO AND OXY TOGETHER RECEIVE ALMOST 40,000 BPD, WHILE PERU'S PRODUCTION EXCEEDS CONSUMPTION BY ONLY 30,000 BPD. AS PERU'S PRODUCTION INCREASES THROUGH THE REMAINDER OF THIS YEAR, PETROPERU'S QUANTITY WILL RISE ALSO, BUT THE CONTRACTOR'S QUANTITY WILL RISE COMMENSURATELY, SO THAT THERE WILL NOT BE ANY INCOME BANAZA FOR PERU IN THE NEAR TERM. MOREOVER, THE LIKELY NEED TO USE PART OF THE PETROLEUM EXPORT EARNINGS TO REPAY THE LOANS FOR PIPELINE CONSTRUCTION ALSO DAMPENS THE FOREIGN TRADE EFFECTS OF PERU'S PETROLEUM PRODUCTION.

B. REPAYMENT OF THE PIPELINE LOANS COULD BE RELATED TO THE ISSUE OF SERVICING PERU'S LONG TERM DEBT. THE JAPANESE PETROLEUM DEVELOPMENT CORPORATION (JPDC), WHICH IS A GOVERNMENT ENTITY, IS ONE OF THE LENDERS IN THE \$100 MILLION JUNGLE

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EXPLORATION AND OPERATIONS LOAN. WE DO NOT HAVE INFORMATION ON THE EXACT PORTION OF THE LOAN WHICH CORRESPONDS TO JPDC. IN THE EVENT THE GOP MOVES TOWARD SOME FORM OF DEBT RESTRUCTURING WITH ITS OFFICIAL CREDITORS THERE WILL BE A QUESTION WHETHER (AND HOW MUCH OF) THIS LOAN WILL BE CONSIDERED OFFICIAL DEBT BY THE JAPANESE GOVERNMENT.

C. IT IS IMPORTANT TO NOTE THAT THE PROJECTIONS FOR PRODUCTION GIVEN BY PETROPERU AND USED IN THE ABOVE ANALYSIS APPEAR CONSERVATIVE BASED ONLY UPON PERU'S PROVEN RESERVES OF APPROXIMATELY 600-700 MILLION BARRELS. THE DATA DO NOT ASSUME IMPORTANT INPUTS FROM OXY'S 1-B AND SECONDARY RECOVERY OPERATIONS ALTHOUGH THE COMPANY PLANS CONSIDERABLE INVESTMENT (COMPANY OFFICIALS SAY UP TO \$300 MILLION) IN THESE AREAS OVER THE NEXT FOUR YEARS. THE PROJECTIONS ALSO DO NOT TAKE INTO CONSIDERATION POSSIBLE INCREASES IN BELCO'S PRODUCTION, OR ANY NEW PRODUCTION WITHIN THE PERUVIAN JUNGLE OR IN THE CONTINENTAL SHELF. SINCE NO RELIABLE FIGURES EXIST REGARDING POSSIBLE FUTURE PRODUCTION, WE HAVE NOT ATTEMPTED TO INCLUDE THIS FACTOR IN OUR ANALYSIS. IN ADDITION, WE BELIEVE THE CONSUMPTION DATA MAY BE TOO HIGH, SINCE THE PETROPERU FIGURES DO NOT APPEAR TO GIVE ADEQUATE WEIGHT TO THE EFFECT OF RECENT PETROLEUM PRICE INCREASES ON DEMAND. THUS PROJECTIONS FOR LATER YEARS (1982, 1983 AND BEYOND) MIGHT SHOW GREATER BENEFITS FOR PERU ONCE THERE ARE REASONABLE ESTIMATES FOR NEW JUNGLE AND SECONDARY RECOVERY PRODUCTION. SINCE MANY EXPERTS BELIEVE THAT EXPLORATION IN PERU TO DATE HAS ONLY "SCRATCHED THE SURFACE", THERE IS STILL OPTIMISM AMONG SOME OBSERVES THAT CONTINUED EXPLORATION WILL RESULT IN ENOUGH QUANTITIES OF PETROEUM TO MAKE PERU A SUBSTANTIAL NET EXPORTER.

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